



## MEMORANDUM

**DATE:** July 30, 2003

**TO:** Michael Wynne  
Acting Under Secretary of Defense (Acquisitions, Technology & Logistics)

**FROM:** General Chuck Boyd, USAF (Ret.)  
President & CEO

**SUBJECT:** Transformational Options for Department of Defense Infrastructure

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For over 20 years, Business Executives for National Security (BENS) has worked to bring the best practices of America's leading businesses to bear on the challenges facing the nation. Our members – senior business leaders from a wide variety of largely non-defense industries – have made their businesses successful using these same practices.

Faced with relentless competition and increasingly demanding customers, American businesses have had to cut overhead, buy smarter, and tighten supply chains to get new and better products to market faster and to support those products in markets around the world. To do these things, they have transformed their industries:

- Focusing on their core missions
- Integrating their enterprises
- Improving the quality of their decision-making data
- Adopting innovative new business processes
- Creating strategic partnerships
- Cutting overhead

It is our sense that the upcoming 2005 round of base closures and realignments is coming at a fortuitous time for the Department of Defense. A variety of forces are converging to offer the possibility that BRAC 2005 can be the most far-reaching and effective to-date.

On the operational side, the last two years have shown both the promise of transformed fighting forces and, in the area where BENS focuses its energy, how fighting in new ways can strain a support system designed for another era.

Fortunately, many of the pieces for transforming DoD's support processes are now in place. New acquisition guidance, new supply guidance, new public-private competition (A-76) rules, and a host of other policy planks are being implemented. More important, the Business Management Modernization Program (BMMP) is taking root. The BMMP

will serve as the backbone of the effort to transform the Department's business side. Areas that have typically lagged the practices of the private sector by a decade or more can now be leap-frogged, catching up—perhaps even leading the way in some crucial areas—by the time BRAC 2005 actions have been completed in 2011.

Because we are not experts on military strategy or warfare, we have not tried to say what the size or locations of the Defense Department's support infrastructure should be in the year 2011. Rather, we have made a “capabilities-based” assessment of the kinds of support functions the Department will always need and tried to describe where the private sector is going to be heading over the next decade and how they are going to get there.

For purposes of this study:

- We include as infrastructure the physical structures, organizations and people employed by the Department of Defense in the continental U.S. to provide support to the nation's warfighting forces.
- Our work is divided into three sections by function, based roughly on the functional areas described in previous base closure analyses: Supply Chain Operations, Back Office functions, and Human Resources & Benefits.
  - Supply Chain Operations is further subdivided into two subsets: 1) RDT&E & acquisition, 2) supply & distribution, repair depots & industrial resources.
  - Back Office functions include the administrative and support functions—primarily current Defense Agency operations like those performed by DCAA, DCMA, DFAS, DLA, and DISA.
  - Human Resources and Benefits is further subdivided into two distinct groupings: 1) personnel management and recruitment, education & training, and 2) quality of life and retention functions. (Medical infrastructure is not an area of BENS expertise. However, we make some general comments about health care comparisons with the private sector.)
- We assume that the BMMP will continue. Modernizing the business processes of the Department of Defense will rely heavily on an integrated information technology system, just as it has in the private sector. Many of the transformation proposals we make depend on BMMP for:
  - Increased quality of decision-making data
  - Increased transparency
  - Across organizational stovepipes and
  - From end-to-end of supply chains
  - From customer to supplier
- We also acknowledge the Administration's competitive sourcing goals and anticipate that the Defense Department will be permitted to employ the full range of competition alternatives specified in the recently revised OMB Circular A-76.

## Supply Chain Operations

The end-to-end supply chain in any logistics system can be reduced to three process actions: source, make and deliver.<sup>1</sup> However, what sounds simple soon becomes complex because there is not just one supply chain in any system, but a multiplicity of them. Consider the end-to-end supply chain of an item—a weapons system, for example. In advance of manufacturing is a component supplier, preceded by that supplier's supplier, all the way back to the stockpile of raw materials. Following manufacture, there is the user's supply chain at the military service level, then that of the operator at the unit level, the return-for-maintenance activity, all the way to the end of the item's useful life and ultimate disposal.

Each successive supply chain adds value to a logistics system and, by that logic, each contributes to the quality, responsiveness and cost of the process. In the private sector, entire industries have been created to manipulate these three attributes in an attempt to derive the maximum economic benefit from them. The Department of Defense faces the same challenges in fine-tuning its supply chain, although in place of economic benefit, warfighting success is the overarching goal.

Numerous studies and documents<sup>2</sup> produced for DoD over the years return to the same conclusions. DoD needs to:

- Field high-quality defense products quickly
- Support them in the field
- Lower total ownership cost
- Reduce the overhead cost of supply chain infrastructure

In real terms, these conclusions translate into a vision for DoD's acquisition infrastructure, to include its Research, Development, Test and Evaluation (RDT&E) infrastructure, as well as supply & distribution centers, repair depots & industrial resources. Acquisition and logistics are a continuum, but historically and practically they have always been considered as two sets of processes, if only because there are—from an organizational perspective—distinctly different sets of process owners. Only in the past decade, have the military services begun to merge the two halves of their supply chains (e.g., the Air Force Materiel Command).

For this analysis, BENS has decided to keep the two separate. First we address the fielding of new weapons as the focus of RDT&E and acquisition. Then we assess the

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<sup>1</sup> This chain of events presumes some planning function that precedes any of these actions. However, since planning consumes resources but not, typically, capital assets or real estate, it can be excluded from discussions about infrastructure requirements. BENS is indebted to Pittiglio, Rabin, Todd & McGrath (PRTM) for this framework based on their Supply Chain Operational Reference (SCOR) analytic model.

<sup>2</sup> For example, these DoD documents: The Defense Science Board 1998 Summer Study on Logistics Transformation, 1998; Actions to Accelerate the Movement to the New Workforce Vision, Report of the Section 912(c) Panel, 1998; Product Support for the 21<sup>st</sup> Century, 1999; The Road Ahead: Accelerating the Transformation of DoD Acquisition and Logistics Processes and Practices, 2000; Logistics Transformation: Update, Focus, Accelerate, 2001; The Future Logistics Enterprise, 2002.

field support functions in a subsection on supply & distribution centers, repair depots & industrial resources.

## **RDT&E AND ACQUISITION**

### **WHAT BUSINESS HAS BEEN DOING**

In the commercial marketplace, the epigram “better, faster, cheaper” has always driven the product development cycle. This mantra is no stranger to the Defense Department or to the private defense industry that supplies it. Yet the commercial sector consistently outperforms the defense sector in getting products to market. Why is this so?

Single sentence explanations are risky, but if there is one, it is that the private sector recognized much earlier than the public sector that cutting costs is one thing but that delivering overall best value is the key to survival in increasingly competitive markets. Therefore, a commercial business strategy that focuses on improving company performance in three areas is critical.<sup>3</sup> The areas are: 1) realizing value through acquisitions, 2) revisiting core business processes, and 3) providing service after the sale.

### **WHERE BUSINESS IS GOING**

Here is what the three areas mean to business:

- Realizing value through acquisitions. Companies incubate new technologies by “planting inexpensive seeds today”<sup>4</sup> then making acquisitions in order to ensure dominance in core business areas. But they don’t stop there. Successful companies are also expert at integrating their acquisitions into the corporate culture. Think Cisco, not Daimler-Chrysler.
- Revisiting core business processes. Improvements in the product development process and supply chain integration allow companies to launch products quicker, cheaper with better performance and life-cycle support. Defense companies take, on average 115 weeks to develop medium complexity electronic systems compared to commercial electronic companies’ 80 weeks. Supply chain costs for defense companies are 25 percent higher than those for computer and electronic equipment companies.<sup>5</sup>
- Providing service after the sale. Delivering solutions, not simply product, has become the premier value-creation component of private sector success. Disregarding consumable or throwaway items, companies are reaping more profits from maintenance, repair and overhaul (MRO) of major items than they do from the original sale. For example, the dollar value of commercial jetliners sold in 1999 was \$37.7 billion.<sup>6</sup> For the same year, the total value of commercial aviation support services was \$87 billion.<sup>7</sup> Successful commercial companies,

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<sup>3</sup> Andrews, Huw and Kurt Steltenpohl, “Becoming Fit for Duty,” PRTM’s Insight, Fall/Winter 2000. pp.24-27

<sup>4</sup> Jon B. Kutler, “Transforming the Board Room Along with the Battlefield,” AW&ST, May 19, 2003. Page 70

<sup>5</sup> Andrews and Steltenpohl, p.25

<sup>6</sup> Teal Group

<sup>7</sup> Boeing

original equipment manufacturers (OEMs) as well as third party logistics providers (3PLs) are moving to capture this market.

The message to DoD is that, to reap the accomplishments of the commercial sector, it must look for new technologies from non-traditional—and non-organic—sources, insist that its defense industry suppliers equal the business process improvements of their commercial counterparts, and look to the much larger commercial MRO sector for solutions to its supply chain challenges.

#### **WHAT DoD CAN DO: RDT&E**

RDT&E is a vital function for the Department. In the development of high quality weapons systems there will always be a need for some DoD infrastructure and capabilities for which there is not a readily accessible commercial source. There are, however, three factors that should weigh heavily in deciding how much of which DoD assets should be kept:

- Commercial technologies will play an increasingly important role in both weapons and support systems. The research, development, and much of the testing of these products will be performed completely by the private sector.
- Testing through simulation has been proven highly successful in both the private sector and the government. As this capability becomes even more effective, there will be less demand placed on other testing facilities.
- Fewer and fewer new platforms will be built in coming years as increased costs and greater reliance on common platforms between multiple Services and even common components between different platforms will continue to drive down demand for test and evaluation facilities already underused.

The U.S. has invested heavily in building the world's best weapons-related laboratory and test & evaluation infrastructure – in both the public and the private sectors. It just has too much of it. BRAC 2005 offers an opportunity not only to reduce the amount of it, it is only during a BRAC that DoD has a chance to rationalize this infrastructure across the range of public and private, commercial and academic, sectors. It is also the only chance to rationalize it across military Service lines—as much of RDT&E is not military service unique.

In BRAC 1995, despite estimates of 35 percent excess capacity in the laboratories and 50 percent excess in T&E (without including the private sector's assets), minimal reductions occurred. Cross-service redundancies were also largely ignored causing Congress to demand in the FY 1996 Defense Authorization Act a reduction to the minimum numbers of laboratories and T&E centers necessary to conduct the Department's mission.

DoD responded with a plan called Vision 21<sup>8</sup>, which was pursued for about a year then shelved when DoD could not obtain the required BRAC renewal legislation required to

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<sup>8</sup> Vision 21: The Plan for 21<sup>st</sup> Century Laboratories and Test and Evaluation Centers of the Department of Defense, Under Secretary of Defense (Acquisition & Technology), May 1996.

implement it. Another recent DoD effort<sup>9</sup> calculates that the cost of existing RDT&E infrastructure could be reduced by another 25 percent if certain management actions were taken. BENS believes that the recommendations made by the Pentagon's own reports, especially Vision 21 and the Section 912(c) report, remain sound and should be the basis for DoD's review of its multi-service RDT&E infrastructure leading into BRAC 2005.

BENS also believes that the Department's recent capabilities-based assessment of the industrial base<sup>10</sup> offers insight into the need to review the contributions of the "new" high-technology industries not traditionally regarded as "defense" industries to meeting future RDT&E requirements. This study clearly suggests a needed fresh look at existing infrastructure, public and private, in terms of future requirements.

#### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

A1: Use BRAC to support critical business process reforms under the Business Management Modernization program to ensure that the goal of 25 percent cost reduction outlined in the 912(c) report is achieved.

A2: Work with Office of the Under Secretary of Defense (Industrial Policy) and retain outside experts to update Vision 21 with a capabilities-based review of RDT&E infrastructure and projected requirements across the public and private sectors and across all Services.

A3: Use the joint cross-servicing working group mechanism to vigorously pursue reductions in duplication and non-value added work in the military service and defense laboratories in accord with the study produced in A2.

A4: Continue to exploit opportunities for privatization and public-private partnering in the laboratory structure as a mechanism for filling excess capacity, leveraging private sector investment, spreading overhead, and attracting top talent.

A5: Reinvigorate the T&E executive agent structure and engage those parties in the process of developing the joint plan for consolidation and streamlining.

#### **WHAT DOD CAN DO: ACQUISITION**

The Defense Department's acquisition process—and its acquisition workforce—has been under tremendous strain. Few areas of the Department have received as much interest and as much scrutiny from Capitol Hill in the last 15 years. Consequently, the "process"

<sup>9</sup> A Plan to Streamline DoD's Science and Technology, Engineering, and Test and Evaluation Infrastructure, Report of the Section 907 and 912(c) Senior Steering Group for Review of the RDT&E Infrastructure, July 1999.

<sup>10</sup> Transforming the Defense Industrial Base: A Roadmap, Office of the Deputy Under Secretary of Defense (Industrial Policy), February 2003.

by which the department acquires “things”<sup>11</sup> has been extensively managed and revised. The so-called 5000-series regulations describing the acquisition process are completely new, and their efficacy has not had time to become evident. The acquisition workforce has been reduced nearly 50 percent over the last 12 years and has been under revised personnel policy for the past five—the same rules regarding management and pay that Secretary Rumsfeld is trying to extend to the entire department.

Not surprisingly, the acquisition communities of the Department of Defense are also subject to many of the same trends outlined above affecting the RDT&E community. In addition to buying fewer new platforms and greater reliance on commercially developed products, there is one other significant trend that could drive a significantly decreased need for acquisition (and supply and depot maintenance) infrastructure: the Department’s increasing reliance on original equipment manufacturers (OEM) and other contractors to manage the entire life-cycle support of weapons systems. While the implications of this trend for maintenance and supply will be dealt with in subsequent sections of this paper, there are two primary ways this trend will affect the acquisition communities:

- Contractors responsible for life-cycle support will also be responsible for managing their subcontractors and suppliers. In the simplest case, this realignment would allow the government to write and manage one contract, reducing the need for government contracting officers, as well as government contract managers and auditors—and their attendant infrastructure.
- More significantly, the Services’ material and systems commands will be able to eliminate much of the parallel program management organization and infrastructure they currently maintain for each platform. It will never be possible, or advisable, to completely eliminate these functions, but when a commercial airline buys a plane or contracts for its maintenance, it doesn’t then set up a duplicative internal organization to shadow the manufacturer’s or maintainer’s. In the past, the government always planned to take over the complete management of the platforms life-cycle and these organizations were necessary. Today and in the future they will not be.

The issue for the current DoD acquisition infrastructure as far as it relates to BRAC action is that it must be reconfigured to match the commercial-like structure the new acquisition policies and personnel processes have started in motion. What characterizes the commercial enterprise is lean management structure at the corporate headquarters with authority and responsibility for execution pushed down to the product divisions. Robust IT is the enabler, permitting upper management to remain aware of operational details at lower levels of the company without requiring large headquarters support staffs to collect and process information. IT produces similar streamlining at the product division.

DoD must strive to reorient and streamline its management superstructure so that as the financial management and business process improvements under the Business Management Modernization Program come on line, the acquisition workforce can be adjusted or refocused. The Navy’s Virtual Systems Command initiative shows one way

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<sup>11</sup> The acquisition infrastructure related to services is addressed in a following section on Back Office functions.

that this process has begun. BRAC 2005 can take this streamlining and process improvement and produce significant infrastructure reductions.

#### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

A6: Consult with outside experts in organizational realignment and use the IT tools made available via the Business Management Modernization Program, to restructure the acquisition organizations of OSD and the Services at the headquarters level to take advantage of improved business processes and IT-enabled information flows and increased use of contractor managed life-cycle support.

A7: Continue consolidation of acquisition and logistics activities at the headquarters level (e.g., the Air Force Materiel Command model) to achieve support personnel and overhead reductions

A8: Support the Navy's creation of a "virtual" enterprise for its Systems Commands (NAVAIR, NAVSEA, NAVSUP, SPAWARS) as a means to streamline operations, reduce intra service duplication and cut overhead

#### **SUPPLY & DISTRIBUTION CENTERS, REPAIR DEPOTS & INDUSTRIAL RESOURCES**

The supply and distribution segment of DoD's operations may represent the single greatest BRAC opportunity for coupling significant infrastructure reductions with transformational business process reforms.

BENS had a first-hand opportunity to look at DoD supply chain operations in 2002. We were pleased to be able to sponsor a study of three representative aviation supply chains with the support and assistance of both the Naval Air Systems Command and Naval Supply Systems Command, as well as several operational units and three contractors who were both suppliers and, in these cases, depot-level repair providers.

Our study, using the Supply Chain Operations Reference (SCOR) model to look in minute detail at these three supply chains, affirmed what many others have learned – the Department of Defense is trailing the private sector by 10 years (or more) in its supply chain practices.<sup>12</sup>

While we also learned that there were several excellent initiatives underway which stood to improve supply chain operations, our study showed that those initiatives alone were not going to allow DoD to keep up with private sector advances – or to remove some of the cultural and organizational impediments to truly transforming its supply chains.

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<sup>12</sup> BENS/PRTM, Using SCOR to Drive End-to-End Supply Chain Improvements: H-60 Case Study. Project Briefing for SysCom Commanders. August 29, 2002.

**WHAT BUSINESS HAS BEEN DOING**

The best companies have found that they are most successful when they have their products on the store shelf whenever a customer wants to buy them.

This goal is not easily achieved. It is often difficult to predict customer demands and responses to promotions or new products. Weather, manufacturing delays, strikes, miscommunication, and any number of other factors can disrupt the flow of goods at any point in the supply chain. The actions and new products of competitors, also unpredictable, can alter demand overnight.

When one thinks of those companies that have been most successful in winning and keeping customers over the last decades, the names of the retailers – WalMart, Target, Home Depot, Lowes, and Dell, among others – are usually at the top of the list. Each of them has indeed found new and better ways to meet their customer demands. What is less apparent is the degree to which the consumer products manufacturers – Kraft, Johnson & Johnson, RJR/Nabisco, etc. – have contributed to meeting this success.

In fact, moving toward this goal has required new thinking on the part of the leaders of every segment of the supply chain – thinking that often runs contrary to their established practices, even where those practices have been thoroughly scrubbed and brought up to the “state of the art.”

It has required an unprecedented level of cooperation and collaboration. These leaders have found that it is not enough only to optimize their segment of the chain. They must be part of optimizing the chain as a whole, perhaps sacrificing some efficiency in their portion to make the whole function more smoothly. And it is this collaboration that characterizes companies that have achieved the highest stage of maturity in supply chain operations.

While each of these leading companies has taken their own path, there are a few key common elements to their success. Before moving on to describe where we believe these businesses will be going in the next decade, we should spend a few moments on these common building blocks that have gotten them this far. They have:

- Appointed a senior company leader to be in charge of supply chain operations.
- Studied, in detail, each element of their supply chains and invested in improvements that reduce the time it takes to turn raw materials into finished products in the hands of consumers.
- Integrated information technology and automation into their total operation –
  - Increasing visibility into their own operations first, then
  - Providing visibility to their suppliers, manufacturers, vendors, and other partners as far up and down the chain as each needed to be successful
  - Adopting IT decision aids for everything from warehouse management, to order picking, pallet packing, and shipping to obsolescence planning
- Sharpened their focus on core operations and cut overhead (both people and infrastructure) by increasing their reliance on real partnerships with third-party logistics (3PL) operators and direct vendor delivery suppliers.

- Cut the number of warehouses and distribution centers they maintain by consolidating and serving larger areas out of centers that serve large regions – while still ensuring the capability for deliveries within 24 hours, or less.
- Pushed inventory held to the most economical points in the supply chain – generally, minimizing inventory close to the finished goods end of the chain.

### **WHERE BUSINESS IS GOING**

While there are still many gains to be made by polishing each of the elements above, we believe the companies that will lead over the next decade will be those that take their collaboration to the next level.

Today, even though the best companies have taken a great deal of slack out of their own warehouse and distribution operations, a leading supply chain expert estimates there are still billions of dollars per year to be saved by one radical new step.

Even those companies that have pioneered use of direct vendor deliveries to cut their own infrastructure while improving re-supply performance still maintain their own warehouses and distribution centers. In most cases, each supplier serving a given retailer has to ship to the retailer's site, where goods are stocked for future shipment or "cross-docked" directly to another truck for immediate delivery to the retailer's stores. This cross-docking saves a great deal of handling – and time and money – but even in the best operations only about 10 percent of loads are able to be cross-docked.

One BENS member is working in the private sector to promote a plan that would make it possible to increase the amount of cross-docking in many operations to 50 percent or more – saving billions of dollars in labor and material handling across the industry. Additionally, this plan will allow for reduced levels of held inventory, including safety stocks, and would hold more of the inventory in the supply chain closer to the manufacturer – in a new kind of distribution center.

While the benefits of this plan in terms of increased cross-docking *may* be less significant to DoD, the real opportunities lie in these new distribution centers and in the reductions in inventory and warehouse and distribution centers infrastructure downstream made possible by the new levels of collaboration key to making this plan economically viable.

In the private sector, this collaboration would be between the suppliers of a given retailer – perhaps competitors, but more likely in different product lines. For instance, a food manufacturer might team with a consumer products manufacturer to ship their products to one of these new distribution centers. This new distribution center, probably operated by a third party and possibly serving other suppliers as well, would be responsible for processing orders and preparing shipments so that delivery to the customer occurs in less than 24 hours.

The issues associated with creating these collaborative ventures revolve around money, naturally enough for the private sector. Participants would have to agree on the formulae for sharing the costs as well as savings that accrue.

In DoD, the barriers will likely originate in the culture – we need our own (fill in the blank) because...we trust the old system because we know how it works – but will eventually come around to money, also – who will pay? How will we share the benefits?

The opportunity afforded by BRAC to both force the change by eliminating much of the existing coupled with the funds available under BRAC to build the new and the ongoing efforts to transform the business processes is great.

#### **WHAT DoD CAN DO: SUPPLY & DISTRIBUTION CENTERS**

Although the Department of Defense operates on a vastly larger scale than even the largest private sector business, there are great similarities to the private sector in the majority of DoD's supply chain operations. It is only the deployment/employment-phase supply chains that support large-scale combat operations that have no private sector analog, and these proposals do not address those supply chain issues – although we would assert that they will contribute to making all of DoD's supply chains better.

Throughout the Department of Defense there are countless initiatives underway to improve the commercial-like supply chain operations in accord with modern best business practices. While the Department's operations are still well behind the private sector in most areas, changes are being made and, by all means, most of those initiatives should be continued.

Where the BRAC process can be of most help in transforming DoD's supply chains is in transforming the Department's warehouse and distribution center infrastructure. As we observed during our study of DoD's supply chains, it is quite common to have multiple supply centers located quite close to one another – often with warehouses from different organizations on the same base.

It is not uncommon for the wholesale warehouse (Defense Logistics Agency (DLA)) to stock the same items as a retail warehouse (a military Service supply center) on the same base – sometimes even sharing a building. In the cases of overlap, each agency will maintain a given level of inventory, including safety stocks. This additional inventory represents significant unnecessary costs and inefficiency.

By adapting the proposal described above for the private sector, DoD has the chance to transform its distribution system in the same way and at the same time, eliminating entire layers of infrastructure and consolidating operations into regional distribution centers serving all bases in that region, regardless of Service. The private sector has shown that these types of operations can deliver service much more responsively than current DoD standards. Any order should be filled from stock, anywhere in the region—and possibly within the entire continental United States—within 24 hours. Faster responses, six to eight hours, are possible within the regions.

In the private sector, an industry has grown up to assist companies in finding the best location for a new distribution center to serve a certain region. The Joint Cross Service

Working Group evaluating supply and distribution centers should retain these private sector experts. In this case, rather than identifying a new location to serve an expanding operation, they would be working the problem from the other end, identifying the existing sites best suited to serve bases in a given region.

#### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

A8: Use BRAC to create a consolidated, joint distribution system for DoD:

- Engage private sector experts to assist in assessing warehouse and distribution center requirements –
  - Appropriate performance/delivery standards of operation for DoD
  - Numbers, types and locations for large distribution centers (e.g. Susquehanna and San Joaquin in today's system) and regional distribution centers
  - Required inventory levels at each site
  - Volume of warehouse and distribution center space
- Close all other warehouse and distribution centers
- Use BMMP and ongoing IT integration solutions to create joint supply management system
- Use BRAC funds to construct or automate/modernize remaining sites
- Contract for operation of remaining warehouse and distribution centers – Where public sector operations remain, use Performance Agreements with performance levels/delivery standards arrived at by process above

A9: Continue to implement current supply chain business process reforms.

#### **WHAT DOD CAN DO: REPAIR DEPOTS AND INDUSTRIAL RESOURCES**

While significant reductions of 30 to 40 percent have been made in military and civilian defense personnel, reductions in organic repair depots and industrial resources—bases and facilities—have lagged. For example, while the number of depot personnel has been reduced by over 40 percent from peak employment in 1987, according the US General Accounting Office, depot facilities and equipment have not been similarly downsized. In 1995, the DoD depot system had 40 percent overcapacity.

A number of Pentagon studies have recommended outsourcing and privatization as solutions to the depot dilemma. In May 1995, the Commission on Roles and Missions of the Armed Forces recommended that DoD transfer most, if not all, depot maintenance to the private sector. The Defense Science Board Task Force on Outsourcing and Privatization, which completed its work in April 1996, was more specific. It recommended that DoD base depot maintenance decisions solely on the capability and reliability of the service provider, be they public or private, even for mission essential—or core—workload. Further, the Task Force recommended that all new weapons systems be maintained in the private sector.

Since the time of those studies:

- The workload of all depots has continued to decrease – a trend that will continue as new, more reliable platforms are brought on line and reliance increases on commercial off-the-shelf (COTS) products that are not repairable in government depots, if at all
- The average age of the depot workforce has continued to climb
- The Department of Defense has continued to under-invest in new technologies for its depots

BENS believes that the current difficulties in rationalizing the Department's depot capacity are largely due to a faulty assumption regarding required core capability. That assumption is that "DoD requires ready and controlled depot maintenance capabilities that can only be provided by public depots." Studies done by the Logistics Management Institute and PricewaterhouseCoopers determined that actual experience does not support that interpretation.<sup>13</sup> They note that the private sector supports almost half of total DoD depot maintenance requirements. Further, "ready and controlled" depot maintenance support for combat forces is routinely provided by the private as well as the public sectors:

- Many weapon systems are primarily supported in the private sector (e.g., AIM-9X missile, F-117 aircraft, AEGIS combat system, Apache fire control system)
- Several former DoD depot maintenance facilities have been privatized, but continue to support critical requirements (e.g., Sacramento Air Logistics Center; Naval Ordnance Station, Louisville; Bluegrass Army Depot)

The way out starts with DoD continuing to hammer at current legislation:

- 10 USC 2464 requires that "the Department of Defense maintain a core logistics capability that is Government-owned and Government-operated (including Government personnel and Government-owned and government-operated equipment and facilities)"
- 10 USC 2466 requires that "not more than 50 percent of the funds made available in a fiscal year...for depot-level maintenance and repair workload may be used to contract for the performance by non-federal government personnel of such workload..."

These restrictions, according to the LMI/PwC study may have counter-productive effects by proscribing private sector capabilities, encouraging "complacent/monopolistic" behavior, inhibiting supply chain integration and increasing costs.

We think that DoD's proposal before Congress to require military departments and Defense Agencies to use at least 50 percent of funds for performance of workload by government personnel or at a government facility by any combination of personnel, public or contract<sup>14</sup> is a partial first step to resolving the reality of the depot dilemma. However, a bolder win-win strategy ought to be put in place—and BRAC 2005 offers what may be the only opportunity to implement it.

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<sup>13</sup> DoD Depot Level Maintenance Core Capability Requirements Study, LMI/PwC, June 2000.

<sup>14</sup> Section 214 of the Defense Transformation for the 21<sup>st</sup> Century Act of 2003

This BRAC round should be the most serious attempt yet to consolidate and rationalize capabilities across all the service depots and industrial facilities—public and private—truly “cross-servicing” all repair and maintenance requirements. In the private sector, this rationalization would take place as a normal part of the process of competition – the most efficient and effective repair facilities, whether in-house or contracted out (there are private sector models that rely on each), would naturally take their place as the preferred options. This process of competition has been stunted in the public sector.

Today, the private sector has been enticed, or coerced, into entering into partnerships with public sector depots, so that jobs will be kept in those depots’ communities – and the “public sector” workload is kept at 50 percent. Given the government’s inability to finance investments in new technologies for their depots, the usual result has been to create depot partnerships where the private sector provides the most technologically advanced repair capabilities, while their public sector partners perform the lower-skilled, less technical work.

BENS believes that to restore the element of competition, to gain the attendant improvements in service that competition should produce, and to give each depot’s community the opportunity to keep the jobs these depots represent, what follows next should be a privatization of all public maintenance depots in place. Allow them to fill excess capacity by growing commercial workload, while continuing to compete for defense maintenance work with other privatized depots and the private sector. This privatization in place should take place over the course of time allowed for all of the closure actions of BRAC 2005 to take place – roughly speaking, over the six years ending with Fiscal Year 2011.

Models already exist at the former Kelly AFB, Texas, and McClellan AFB, California. While there were many skeptics when the privatization-in-place plans were announced in 1995 (including BENS) the outlook has changed over time. The privatized depots are using their government work as a bridge to attract commercial interest. This infusion of private capital promises to sustain and possibly increase local employment.

Privatization-in-place is not painless. The government has to accept costs that could have been avoided by simply closing the base and walking away. Local communities have to shoulder the commitment to compete for commercial workloads and plan for the eventual possibility that the public workload will also be opened to competition. The key is recognition that the transition is not abrupt and that risk to all parties can be managed. Depots need a deliberate transition period and a stable defense workload to tide them over while commercial work grows. For example, Kelly and McClellan envisioned a five-year defense workload guarantee and public employment agreements out to 2004. Similar workload guarantees should be provided to all privatized depots. However, at the end of the transition period, all maintenance work must be opened to full and fair competition.

**PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

A10: Establish a depot and industrial facility cross-servicing panel that has the goal of rationalizing and consolidating DoD's existing infrastructure into a configuration to support the repair and maintenance requirements of the 2011 force structure. Designate lead services for common equipment and reduce physical plant and workforces to the minimum number required for the force structure.

A11: The entire DoD maintenance depot system should be privatized-in-place under similar conditions set down for the San Antonio and Sacramento Air Logistics Centers in 1995.

- A public sector workload guarantee, at a level existing at the time of the decision to privatize, will continue for 3 years, with reduced guarantees in each of the succeeding 3 years. At the end of the period, the workload will be opened to full and open competition.
- DoD's Office of Economic Adjustment will make up to \$2 million available to each maintenance depot for transition planning. They may also apply for grants from the Economic Development Administration at the Department of Commerce.
- The Department of Defense and the maintenance depots will enter into agreements with the local community's redevelopment authorities to plan for the transition of the depots to the private sector. At the end of 6 years, Department of Defense responsibility will terminate.
- The community redevelopment authority will select a master developer to implement its transition plan. The master developer can solicit and commence commercial operations on the depot as soon as the transition plan is approved by its respective Service.
- Continued Department of Defense access to depot-level services for its core requirements (as defined by the Defense Department) will be provided for in the transition agreements.

## Back Office Functions

It is accepted wisdom that American business has strived to cut overhead by seeking efficiencies in their back office functions. They have undertaken this transformation in three broad functional areas—technology infrastructure, business applications, and business processes—each increasing in strategic value to the company as they climb the ladder. In many cases, the decision has been made to outsource<sup>15</sup> specific activities in each of the functions, either because they are not core competencies and were distracting management attention from what is core, or because, simply put, they were not “best-in-class” in performing these functions.

What is generally not appreciated is that governments—local, state and federal—are growing their share of outsourced functions. One source calculates that outsourcing in government will grow by 17 percent through 2004.<sup>16</sup> Accenture, the world’s leading management consulting and technology services company, found that government executives use outsourcing “more frequently to add value than to reduce costs.”<sup>17</sup> Their survey across national government in 22 countries found outsourcing proceeding along two distinct trajectories:

One trajectory leads to greater efficiency of existing operations and is marked by conventional forms of outsourcing, such as information technology infrastructure. The other leads to organizational transformation and is marked by more extensive use of higher value outsourcing forms, in particular, business process outsourcing.<sup>18</sup>

### WHAT BUSINESS HAS BEEN DOING

Under the catchall term Business Process Outsourcing (BPO), companies have transformed the way their back offices function. The changes have freed managers and staff from routine tasks, permitting them to focus on company issues tied directly to the bottom line. By shifting administrative and other transactional work to outsourcing service providers, companies have realized cost savings, earned scalability as the business cycle expands or contracts, and obtained access to leading edge technology.

### WHERE BUSINESS IS GOING

BPO is said to be entering its second phase. Improving on buying direct outsourcing services, companies are now forming strategic partnerships and joint ventures with their partners. Initially focused on IT outsourcing, today it is common to find companies outsourcing the full range of human relations (HR), customer relationship management (CRM), finance & accounting, benefits, business travel and real estate facilities

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<sup>15</sup> We define outsourcing as: Contracting with a private sector firm to take responsibility for a function or process for which the government remains accountable.

<sup>16</sup> International Data Corporation, 2001.

<sup>17</sup> Outsourcing in Government: Pathways to Value, Accenture, 2003.

<sup>18</sup> Ibid.

management tasks. According to Gartner, Inc., BPO services are growing at a 9.5 percent compounded annual rate.<sup>19</sup>

### **WHAT DOD CAN DO**

BENS believes that the Defense Department should make the private sector the preferred provider of services for its back office functions.<sup>20</sup> We also observe that DoD has made tremendous strides in importing information technology (e.g., the Navy-Marine Corps Intranet) and business application solutions (e.g., Enterprise Resource Planning systems). In consonance with the foregoing discussion, DoD should concentrate on opportunities along trajectory 2—business process outsourcing—where the returns are likely to be highest in terms of access to private sector expertise and technology, and improvement in service speed or quality.

What processes should the Defense Department consider outsourcing? The back office functions frequently chosen by the private sector for review include:<sup>21</sup>

- Information technology deployment
- Document management, including auditing
- Financial management
- Human resources
- Management of commodities (i.e., their own vendors)

With the exception of human resources, which are independently managed by each of the military services (and will be addressed separately in our infrastructure vision), these back office functions are primarily performed in DoD by various Defense Agencies and Activities. The Defense Agencies were formed in the early 1990s to centralize and streamline support functions. Although consolidated, vestiges of these functions still exist in the military services, if only to monitor or liaise with the DA's.

The reality of the Defense Agencies according to DoD's own internal assessment is that they exist in a "monopolistic" environment, are focused on functions not processes, perform many tasks not core to warfighting and—as across all of DoD—have an aging workforce.<sup>22</sup> In the spirit of transformation, BENS believes there is real opportunity to change the way these business processes are done.

Every back office function streamlined by business process change or transferred to private sector service providers translates into reduced space requirements on DoD installations or leased properties. To be sure, reorganizing the back office is not likely to produce whole base closures, but the reduction in real property requirements should permit "pulling in the fences" on many installations and the termination of leases at many rented locations.

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<sup>19</sup> Conley, John. "BPO's New Look", *Outsourcing Essentials*, Summer 2003, p. 14.

<sup>20</sup> This was one of the 11 recommendations made in BENS Tail-to-Tooth Commission Call To Action, February 2001.

<sup>21</sup> The Outsourcing Research Council.

<sup>22</sup> "Defense Business Agency Review," pre-decisional working papers, September 10, 2002.

Obviously you don't need BRAC authority to vacate leased space, but pursuing reductions in this area at this time makes good business sense within the overall context of a BRAC exercise.

Reducing space requirements on DoD installations makes vacated offices or facilities available for realigned activities from other installations. If a back office function is outsourced, the DoD facility can be leased back or sold (privatized) to the private sector provider. Or, if no longer needed, the property can be disposed in accordance with 32 Code of Federal Regulations (CFR) Parts 90 and 91.

Here is a checklist for DoD to follow:

- Find an outside consultant (Accenture and ACS are industry leaders) to assess and provide a back office blueprint for the Department.
- Use the Business Management Modernization Program as the guiding architecture.
- Find another experienced consultant to implement the business process change.
- Consider all options: privatization, outsourcing, ESOPs. Let business process change inform organizational realignment.
- Use new A-76 process to maximum.
- Use the BRAC authority as the shaping mechanism for a reorganized back office operation.

#### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

B1: Make the private sector the preferred provider of services for back office functions

B2: With the Business Management Modernization Program (BMMP) as a guide, change the organizational structure of the Department's back office functions to align authority with responsibility

B3: Outsource the services of the Defense Contract Audit Agency (DCAA)

B4: Transfer the operations of the Defense Contract Management Agency (DCMA) back to the respective buying entity

B5: Continue to competitively source functions of the Defense Finance & Accounting Service (DFAS) until all have been reviewed

B6: Transfer all commodity management, information, and disposal activities of the Defense Logistics Agency (DLA), including the Defense Energy Support Center (DESC), to private vendors or 3<sup>rd</sup> party logistics providers. Retain within DLA:

- Planning and combat logistics support for combatant commanders
- Oversight of prime vendor agreements
- Direct management of DoD-unique and readiness items

B7: Outsource management of long-haul communications in the Defense Information Systems Agency (DISA) and pursue competitive sourcing until all remaining functions have been reviewed. Retain within DISA planning and management of “the last tactical mile” of support to the combatant commanders

B8: Identify the residual organizations in the military services that continue to perform similar activities to or exist to monitor or liaise with the aforementioned Defense Agencies and vigorously eliminate, rationalize or consolidate into joint cross-service use using the Business Management Modernization Program as a guide.

## Human Resources & Benefits

Human Resources (HR) is one of the most sensitive areas for outsourcing because it deals directly with the workforce. In general, the function includes determining employee requirements, then screening, hiring and maintaining all facets of that employee's relationship with the company. A typical taxonomy of HR tasks would be:

- Payroll
- Benefits
- Training
- Recruiting
- Employee communications
- Vendor management
- Employee data management
- Drug screening/background checks

Payroll administration was the primary HR function shifted to outsourcing service providers. Benefits administration, including 401(K) programs, short-term disability and pension management was the number two outsourced process. According to a recent survey, employee education and training was outsourced by 43 percent of respondents, recruiting and hiring by 20 percent and personnel administration by 7 percent.<sup>23</sup>

Direct commercial equivalents exist in the Defense Department areas of personnel management and recruitment, training & education. BENS notes that DFAS has already outsourced one of its payroll systems—and that there has been an effort to move the background security investigations out of the Department. Our propositions in these areas build on what is already occurring, albeit on a limited scale, in each of the military services and OSD.

We acknowledge that the Department views benefits for its members differently. In the private sector benefits typically mean insurance options, retirement plans, vacation policies and, perhaps, profit sharing. Beyond those, the private sector usually does not involve itself in an employee's non-work activities. (Although that, too—as we will show in the case of auto giant, General Motors—is changing.)

DoD, even with respect to its civilian employees, takes a paternal view of benefits. Included in this broader definition are the categories of “quality of life” and retention management. The Defense Department provides, in addition to all the things mentioned for the private sector, commissaries and exchanges; morale, welfare & recreation services; temporary and permanent change of station moving services; temporary and permanent housing; day care, and a myriad of other social services. BENS believes that these are important HR tools needed for the good order and functioning of the operational force and the civilian workforce. Our propositions in these areas focus not on what can be cut, but rather on what the best method of maintaining the benefit might be.

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<sup>23</sup> Gartner, Inc., 2002

## PERSONNEL MANAGEMENT & RECRUITMENT, EDUCATION & TRAINING

### WHAT BUSINESS HAS BEEN DOING

HR back in the days when it was called “Personnel” was one of the largest departments in any company. Today, however, many companies have decided that they can outsource some of the HR tasks to achieve streamlined efficiency and service and, at the same time give a significant boost to the bottom line. Two-thirds of the Fortune 1000 companies outsource some portion of their HR function.<sup>24</sup>

### WHERE BUSINESS IS GOING

HR today is the fastest growing segment of the BPO market. Three years ago, British Telecom and Accenture virtually formed this market with the creation of Accenture HR Services. Since then, BPO provider ACS and Motorola have partnered to form ACS Global HR Solutions. Many other companies are entering the field. What is interesting in this new field is that in addition to forming a BPO relationship among themselves, these companies are partnering to offer the new line of business to third parties. In effect, they create both an outsourcing revenue stream and a consulting revenue stream.

Another trend is outsourcing on demand. Similar to “power by the hour” that is routinely offered in the MRO sector, the outsourcing on demand provider is paid by the number of transactions processed. IBM Global Services pioneered this model with Canada Life of Toronto. The business proposition is that both sellers and buyers share in the gains. The BPO provider (seller) has incentives to make its services more efficient and less costly because revenues are tied to growth in the buyers’ business—increasing revenues for both.<sup>25</sup>

### WHAT DOD CAN DO

In general, each military service manages its own personnel system. Although technical and IT functions are being consolidated in the Defense Integrated Military Human Resources System (DIMHRS), that effort falls far short of creating a single, DoD-wide HR system. Likewise, BENS notes that the Army is experimenting with replacing soldiers with civilian recruiting specialists. Expanding the concept to all services not only reduces infrastructure, but possibly more valuably, returns military personnel to the active operational forces.

Education and training covers a wide variety of activities and costs the Department over \$16 billion a year.<sup>26</sup> According to the Defense Science Board that portion of training and education for specialized technical and administrative skills—so-called “schoolhouse” training—is significant, consuming nearly a third of DoD’s annual training & education budget. BENS believes there are significant savings that can be achieved by using private sector and public academic institutions to teach these skills. Unique military training, professional military education (i.e., academies and war colleges) and

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<sup>24</sup> The Conference Board, 2002

<sup>25</sup> Conley, p.16.

<sup>26</sup> Defense Science Board 1996 Summer Study: Achieving an Innovative Support Structure for 21<sup>st</sup> Century Military Superiority, “November 1996.

warfighting skills (e.g., the USMC Expeditionary Warfare School) should continue to be wholly owned and operated by the military services.

### **THE GENERAL MOTORS HR PORTAL**

General Motors Corporation (GM) announced late in 2000 that it was going to offer its employees a globally connected, intranet-based portal. They already had their HR records systems and payroll online. The employee portal had to integrate seamlessly and add new levels of employee-corporate communications, as well as employee conveniences, such as syndicated news, weather and stock information.

The portal infrastructure allows 250,000 employees to log in from locations around the world (a large component of the automaker's employee population has no internet or intranet access at work; but 80% have PCs at home). The portal brings workplace collaboration and productivity tools into one place on the desktop, provides a large number of HR self-service and payroll applications while allowing the employee to customize the portal for the resources they need most.

Because, at the time, no one had built a portal this large before, GM looked for an outsourcing provider with experience. After issuing a Request for Proposal to a dozen companies, they chose Workspace, Inc., a Framingham, Massachusetts, company with over 30 years of HR expertise. Workplace deployed the portal, known as "mySocrates" in less than 12 months. Today it averages 200,000 page hits per hour and in the third quarter of 2002 experienced more than one million hits.<sup>27</sup>

### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

C1: Make the private sector the preferred provider of HR services: personnel management and recruitment, education and training for specialized—but not military unique—skills

C2: Compete remaining payroll functions (active duty/reserve/civilian) and those parts of the benefits system related to monetary transactions (e.g., insurance, thrift savings plan, etc.)

C3: Continue to press for authority to move all background security investigation personnel and infrastructure out of DoD

C4: Establish a joint, central organization for all personnel management activities. Retain in each military service only those activities needed to build the force structure requirements, make assignments, and manage warfighting and occupational skills development

<sup>27</sup> "Launching the World's Largest Employee Portal," Kathleen Goolsby, Everest Partners LP, 2003.

C5: Establish a single HR portal for all DoD military and civilian employees to enable each of them to manage their personnel actions electronically. Vigorously rationalize the military services existing physical HR infrastructure

C6: Expand outsourcing of recruiters and recruiting/induction functions for all military services.

C7: Move training and education for specialized skills to preferred providers in the private sector or public academic institutions

## QUALITY OF LIFE & RETENTION

### WHAT BUSINESS HAS BEEN DOING

There are few analogous models in the private sector regarding maintaining employee morale and retention on which to draw—with the possible exception of the large multinational corporations with workforces and families spread across the globe. However, the one common attribute of all these systems—military and multinational corporation—is that maintaining quality of life functions and infrastructure is hugely expensive. That is not to say that there are no ways to make such operations more efficient, serve the members better and, perhaps, cost less—all in a manner that is transparent to the way this support is provided today.

As reported earlier, many companies, and increasingly those with global operations and workforces, have turned to third party providers for services and support. One example is the growth in the so-called relocation services industry. Relocation services—provided by such companies as Cendant and Prudential—relieve corporate officers of the details of transferring employees from one location to another. They can provide services ranging from moving household goods to scheduling air transportation to finding schools and employment for the employee's children and spouse. Other companies, such as USAA, which caters specifically to the military community, provide a full range of personal services from insurance to leisure travel.

### WHERE BUSINESS IS GOING

The introduction of IT into the management of personnel benefits is the major new innovation in this arena. Not just automating information to give corporate managers oversight, but also the provision of portals so that the individual employee's can manage his or her personal company benefits from any location at any time of the day or night. To provide these services, companies have set up networks of call centers—frequently offshore—to provide 24-hour coverage.

### WHAT DOD CAN DO

The Defense Department's valid concern for the portion of its infrastructure devoted to benefits for its members, military and civilian, stretches back to the nation's founding. It

became not only a concern but also a requirement with the advent of the All Volunteer Force in the early 1970s. The Gates Report, in 1970, stated, “the viability of an all volunteer force ultimately depends upon...[the ability of] the military services to maintain... [the] attractive conditions of military service.” More and more, these quality of life issues are pertinent to not just military and civilian employees of the Department, but to their families as well. Maintaining the “benefit”, as it is called, is a major factor in retention.

In October 1995, the Defense Science Board Task Force on Quality of Life chaired by former Secretary of the Army, John O. Marsh, Jr., developed a particularly useful way of looking at this topic and its attendant infrastructure. They divided the landscape into three categories:

- Housing (family and bachelor)
- Personnel tempo (operational tempo, reserve component, and contractors)
- Community and family services (child care, family support programs, educational services, Moral, Welfare & Recreation (MWR), transportation)

The first and third categories are particularly germane to a BRAC discussion because they represent significant amounts of physical infrastructure. In the housing arena, BENS applauds the Department’s very successful privatization program and would encourage its expansion, to include development and management of barracks and other billeting facilities. While stipulating that community and family services must, if nothing else, continue be improved across the military services, we believe that the private sector can play a larger role in developing and providing, perhaps even owning, these quality of life services.

Because the level of benefit is maintained in most quality of life propositions, reduction in physical infrastructure will be modest. However, to the extent the business models can be streamlined and consolidated, there may be savings in both personnel and space requirements. Privatization or enhanced-use leasing arrangements should have the effect of reducing base operating & support costs even if having no effect on reducing the base’s real property footprint.

Here’s a checklist for DoD:

- Empower a DoD Task Force or Commission with all stakeholders represented and to produce a business plan for the Human Resources enterprise.
- Let business process change inform organizational realignment.
- Use new A-76 process to maximum.
- Consider BRAC authority as the shaping mechanism for a reorganized Human Resources operation.

#### **PROPOSITIONS (TRANSFORMATIONAL OPTIONS)**

C8: Make the private sector the preferred provider of military family housing by continuing a compensation-based approach that enables the military member to make a financial decision on how to spend his or her housing allowance

C9: Continue the Military Housing Privatization Initiative (MHPI)

C10: Convert barracks/transient facilities development, operation and management to a professional, largely civilian-run organization. Take private hotel/motel industry practices as the organizational standard. Compete where the local commercial market provides alternatives

C11: Continue to expand private sector participation in childcare and family support programs by either privatizing or using enhanced use lease authorities to move the infrastructure out of DoD ownership

C12: Employ distance learning and available educational resources in local communities to cut down on DoD owned/operated educational facility requirements

C13: Compete, where feasible, infrastructure associated with MWR Category A activities. They include intramural and unit sports, libraries, physical fitness facilities, recreation centers and activities at unit level primarily oriented to unaccompanied personnel. These activities need to be preserved on military facilities and ships, but their operation does not require DoD personnel in many

C14: Evaluate MWR Category B activities against availability of same/similar services available in the local community (where military members could perhaps receive DoD-subsidized access/membership). These include auto hobby shops, arts & crafts centers, bowling centers, child development centers, entertainment, outdoor recreation, and youth services. Where no commercial market exists, preference should be to provide the service on the military facility, but to compete the development, operation and management where possible.

C15: Develop and operate MWR Category C activities with private sector partners. These activities include amusement machines, Armed Forces Recreation Centers, entertainment/dinner clubs, and golf courses. Consider allowing local community use as away of leveraging operating costs.

C17: Continue planning to consolidate the Service's three separate exchange systems in a way that is transparent to the military shopper.

C16: Privatize the Defense Commissary Agency (DeCA), including its overseas operations, employing a business model that stipulates that the current level of benefit be maintained and that the number of stores not be reduced unless the benefit can be otherwise replaced. The plan should encourage a consortium of providers to team to provide the benefit.

C18: Outsource DoD's Household Goods and Personal Property Shipping function to the commercial relocation services industry using the current Families First program as the operational standard.

#### **A NOTE ON MEDICAL INFRASTRUCTURE**

According to the General Accounting Office over 8 million people are eligible for care from DoD's Military Health System (MHS). About 20 percent are active duty members, the rest are dependents and retirees. The budget for FY 2002 was near \$24 billion, with the Services picking up about \$5 billion of the total in pay and allowances for military medical personnel.

The MHS' worldwide operations are extensive: nearly 130,000 personnel serving at about 1,000 Army, Navy and Air Force Military Treatment Facilities (MTFs) divided in 12 CONUS plus European, Pacific, and Latin America regions. TRICARE, as the health care program is known, provides about 75 percent of its services through the MTFs with the remainder provided by contractors in the nation's civilian health care system.

There is no private or commercial equivalent in physical size to the MHS—in the private sector, the nation's leading provider of healthcare services, HCA, headquartered in Nashville, Tennessee, operates approximately 200 hospitals and 70 outpatient surgery centers in 24 states, England and Switzerland. However, the evolution of the nation's healthcare system in last decade may provide some guide to the way ahead for DoD.

It is well known, and often lamented, that the nation has moved from a medical care system based on independent providers (doctor's offices) and non-profit hospitals to a consolidated system of managed care providers and private or publicly-traded for profit hospital centers. Whatever one's perception or experience within this medical system is, one thing that has changed is that best business practices now govern its operation. This has resulted in consolidation of facilities, elimination of localized excess capacity, and automation of administrative processes. A by-product of commercialization in the medical field has been the increase in specialized medical services and treatment centers available, especially in urbanized areas of the country.

What can DoD learn? First is that, even though TRICARE's role in military readiness is critical, its infrastructure must be run like a business. Once the Force Health Protection requirement (e.g., personnel and medical capabilities to prevent casualties from occurring in the deployed environment and ability to provide high quality casualty care if it does occur) is adequately provided for, DoD should consolidate its remaining MTF structure. Second, increasing partnerships with current managed care providers in the private sector sustains a strong medical support system in CONUS to care for retirees and families of active duty deployed personnel. It also creates a pool of civilian providers to backfill MTF's when their medical staffs are deployed. Finally, DoD must complete funding and fielding of the Composite Health Care System (CHCS II) to permit automated medical information on all eligible beneficiaries to be available worldwide. Like the Navy-Marine Corps Intranet, CHCS II is a good candidate for outsourced operation and maintenance.